

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 DODE-00 PA-01 PRS-01 IO-13 AF-10

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R 121400Z APR 77

FM AMEMBASSY BEIRUT

TO SECSTATE WASHDC 3629

INFO AMEMBASSY ABU DHABI

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

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E.O. 11652: N/A

TAGS: EAID, PFOR, LE, XF

SUBJECT: ARAB AID TO LEBANON

REF: (A) DOHA 0467, (B) STATE 072763, (C) KUWAIT 1632

1. ON APR 7, DCM CALLED ON DR. ELIAS SABA, FORMER GOL FINANCE MINISTER AND LEBANESE REPRESENTATIVE AT MAR 21 RIYADH MEETING TO DISCUSS ARAB AID TO LEBANON. DR. SABA'S ACCOUNT OF THIS MEETING CLOSELY PARALLELED THAT GIVEN IN REF C. DURING THE COURSE OF A ONE-HOUR CONVERSATION, DR. SABA MADE THE FOLLOWING POINTS:

2. THOSE ATTENDING THE MEETING WERE PROFESSIONAL ECONOMISTS AND NOT REPEAT NOT POLITICIANS. THEY THEREFORE LOOKED AT THE LEBANESE PROBLEM FROM THE PURELY ECONOMIC POINT OF VIEW AND DID NOT DISCUSS POLITICAL QUESTIONS.

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3. DR. SABA SAID HE WAS VERY PLEASED THAT THE KUWAIT REP (PRE-SUMABLY AL HAMAD) HAD OPENED THE MEETING BY SAYING THAT THE REVIVAL OF LEBANON'S ECONOMY AND PRODUCTIVE CAPACITY IS AN ARAB RESPONSIBILITY BECAUSE A PROSPEROUS LEBANON IS AN ADVANTAGE FOR ALL ARAB COUNTRIES.

4. THE MEETING DISCUSSED FOUR SPECIFIC AREAS IN WHICH LEBANON NEEDS HELP:

A. DISASTER RELIEF AND HOUSING. THE GROUP DECIDED THAT APPROXIMATELY LL 500 MILLION WAS NEEDED IMMEDIATELY FOR THESE PURPOSES IN THE FORM OF BILATERAL GRANTS FROM THE ARAB COUNTRIES AND OTHERS. SAUDI ARABIA HAD PLEDGED LL 50 MILLION AND KUWAIT LL 30 MILLION. (COMMENT: IT WAS NOT CLEAR WHETHER SAUDI ARABIA HAS ALREADY CONTRIBUTED THIS LL 50 MILLION -- BEIRUT 1207 -- OR WHETHER AN ADDITIONAL LL 50 MILLION IS ON THE WAY.)

B. INFRASTRUCTURE. THE ASSEMBLED ECONOMISTS HAD AGREED THAT THE GOL NEEDS ABOUT LL 1.5 BILLION TO REBUILD ROADS, TELECOMMUNICATIONS, ELECTRIC POWER, PORTS AND OTHER BASIC INFRASTRUCTURE. IT WAS AGREED THAT THE ARAB GOVERNMENTS SHOULD PROVIDE THESE FUNDS IN THE FORM OF LONG-TERM, LOW-INTEREST LOANS FROM THE VARIOUS FUNDS ALREADY IN EXISTENCE SUCH AS KFAED, THE SAUDI FUND, ETC. SOME OF THIS MONEY MIGHT BE CHANNLED THROUGH THE WORLD BANK, AND WOULD GO EITHER DIRECTLY TO THE GOL MINISTRY RESPONSIBLE FOR THE PROJECT OR THROUGH THE NEWLY-CREATED RECONSTRUCTION AND DEVELOPMENT COUNCIL. IT WAS ALSO POSSIBLE THAT ONE OR MORE OF THE FUNDS MIGHT COOPERATE WITH THE WORLD BANK IN FINANCING A PARTICULARLY HIGH-COST PROJECT. DR. SABA MENTIONED THAT THE GOL SHOULD HAVE PROJECTS PREPARED BEFORE THE END OF 1977 COSTING ABOUT LL 700 MILLION. HE SAID THAT THE ECONOMISTS HAD AGREED TO RECOMMEND TO THE POLICY-MAKERS OF THEIR RESPECTIVE GOVERNMENTS THAT THESE FUNDS BE MADE AVAILABLE TO LEBANON AND THAT THE SAUDIS HAD ALREADY AGREED IN PRINCIPLE. THIS EXPLAINED, HE SAID, THE PRESENCE OF DR. JALLAL FROM THE SAUDI FUND IN BEIRUT THIS WEEK.

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C. PRIVATE SECTOR. DR. SABA ESTIMATED THE TOTAL LOSS TO THE PRIVATE SECTOR OF THE LEBANESE ECONOMY DURING THE PAST TWO YEARS AT APPROXIMATELY LL 6 BILLION. AFTER CONSIDERABLE DISCUSSION, THE ASSEMBLED ECONOMISTS HAD AGREED THAT 15-YEAR LOANS AT TWO-THREE PERCENT INTEREST SHOULD BE PROVIDED BY THE ARAB GOVERNMENTS TO LEBANON TO "REVITALIZE THE PRODUCTIVE SECTOR OF THE LEBANESE ECONOMY." THIS WORDING HAD BEEN USED TO AVOID HAVING TO RECOMMEND LOW-COST LOANS TO THE "PRIVATE" SECTOR WHEN MANY PEOPLE WERE CONVINCED THAT LEBANESE BUSINESSMEN HAD MONEY OF THEIR OWN BUT WERE UNWILLING TO RISK IT. THESE FUNDS WOULD BE CHANNELLED THROUGH THE RECONSTRUCTION AND DEVELOPMENT COUNCIL TO THE CENTRAL BANK, WHICH IN TURN WOULD MAKE THEM AVAILABLE TO PRIVATE BANKS TO LEND TO THEIR CUSTOMERS. THE DONORS, WHO MIGHT INCLUDE OTHER NON-ARAB COUNTRIES AND INSTITUTIONS, WOULD CONSULT CLOSELY TOGETHER AND WITH THE LEBANESE AUTHORITIES TO GAUGE THE NEEDS OF THE LEBANESE PRIVATE SECTOR, AND TO ASSURE THAT THE PROSPECTIVE BORROWER REALLY NEEDED THE FUNDS AND WOULD USE THEM IN LEBANON.

D. BUDGET SUPPORT. DR. SABA SAID THAT IN ADDITIONAL TO ALL OF THE ASSISTANCE OUTLINED ABOVE, LEBANON WILL BE IN DESPERATE NEED OF BUDGET SUPPORT FOR THE NEXT SEVERAL YEARS. THE TREASURY ALREADY OWES THE CENTRAL BANK CLOSE TO LL 1 BILLION AND THE GOVERNMENT DEFICIT WOULD BE ABOUT LL 1 BILLION A YEAR FOR THE NEXT SEVERAL YEARS, BECAUSE OF INEVITABLE WAGE INCREASES FOR CIVIL SERVANTS AND THE EXPENSE OF REBUILDING THE ARMY. HE HAD SPECIFICALLY RAISED THIS AT THE RIYADH MEETING TO DEMONSTRATE THAT LEBANON WOULD BE MAKING ITS OWN CONTRIBUTION TO THE RECOVERY OF ITS ECONOMY AND NOT RELYING EXCLUSIVELY ON OUTSIDE HELP. HE ANTICIPATED THAT ONCE THE GOVERNMENT WAS BETTER ORGANIZED, SECURITY HAD BEEN ESTABLISHED, AND SOME OUTSIDE RECONSTRUCTION AID HAD BEGUN TO FLOW, THE GOVERNMENT WOULD BE ABLE TO COVER A SIZEABLE PORTION OF ITS ANNUAL DEFICIT BY FLOATING BONDS INTERNALLY AND BORROWING ABROAD.

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5. DR. SABA MENTIONED THAT THE KEY TO LEBANON'S FOREIGN ASSISTANCE PLANS IS SAUDI ARABIA. HE THOUGHT THE KUWAITIS WOULD CONTRIBUTE ABOUT TWO-THIRDS OF WHAT THE SAUDIS DID TO THE VARIOUS PROGRAMS AND THAT THE GULF STATES WOULD SCALE THEIR PARTICIPATION ACCORDINGLY.

6. COMMENT: THE MAR 21 MEETING WAS QUITE SUCCESSFUL FROM LEBANESE POINT OF VIEW, BUT IT WAS ONLY A PRELIMINARY STEP. THE GOL MUST NOW PERSUADE THE GOVERNMENTS THAT ACTUALLY CONTROL THE MONEY TO IMPLEMENT THE RECOMMENDATIONS OF THE ECONOMISTS AND MAKE IT AVAILABLE TO LEBANON. DR. SABA'S COMMENTS ON THE GOL'S NEED FOR BUDGET SUPPORT FOR THE NEXT FEW YEARS ECHO SIMILAR REMARKS BY THE RECENT WORLD BANK MISSION. HOW SUCCESSFUL THE GOL WILL BE IN RAISING FUNDS ON THE WORLD MARKET DEPENDS, LIKE SO MUCH ELSE IN THIS COUNTRY, ON THE EVOLUTION OF THE SECURITY SITUATION.
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